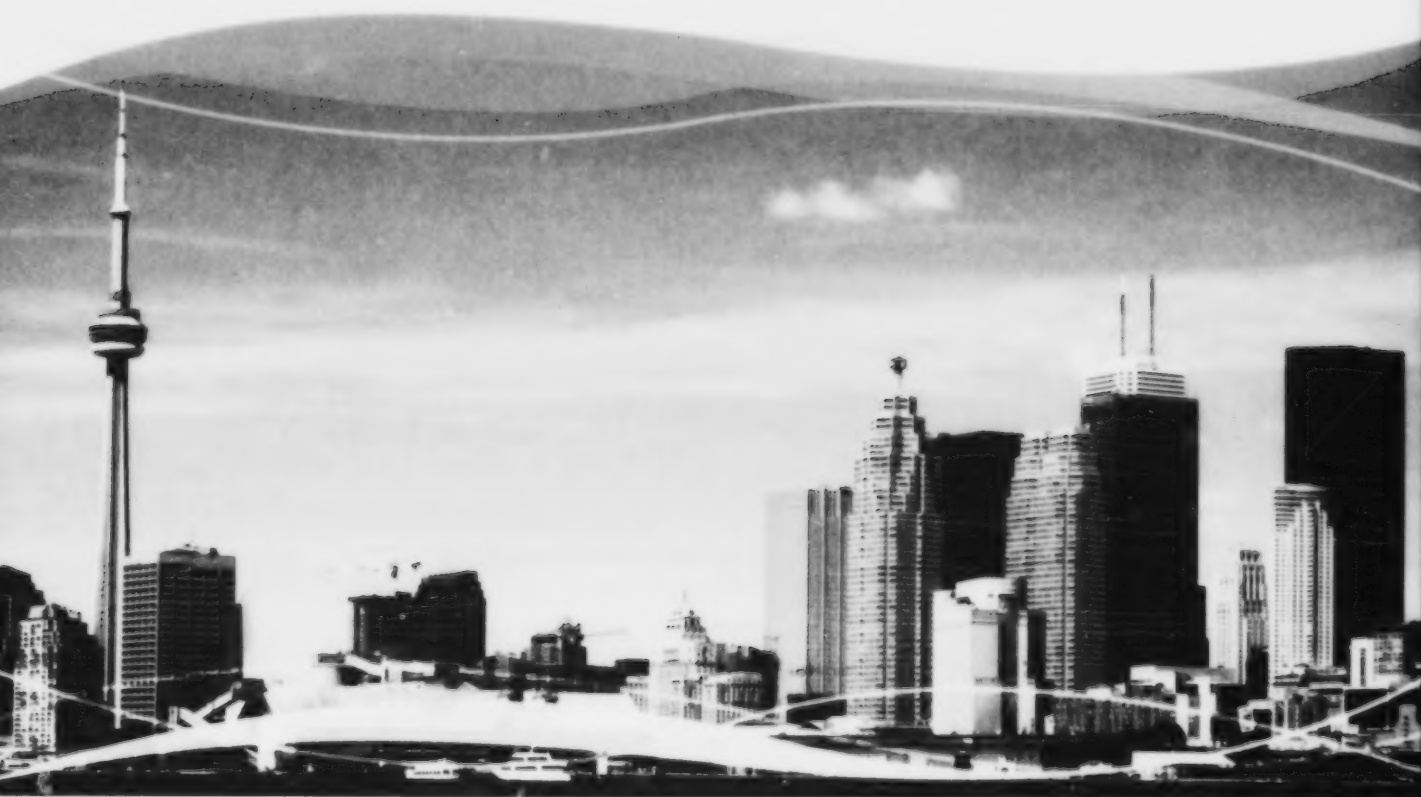


Ontario **Financing** Authority



Annual Report

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- | | |
|----------------|---------------------|
| - Bond Issues | - Borrowing Program |
| - OFA Bulletin | - IR Presentations |
| - Webcasts | - Other events |

Mandate

The Ontario Financing Authority (OFA) was established by the *Capital Investment Plan Act, 1993* (CIPA), and performs the following activities:

- conducts borrowing, investment, and financial risk management for the Province of Ontario
- manages the Provincial debt
- provides financial and centralized cash management services for the government
- advises ministries, Crown agencies and other public bodies on financial policies and projects
- assists Crown agencies and other public bodies in borrowing and investing
- acts as an intermediary for the Province in lending to certain public bodies and invests on behalf of some public bodies.

The OFA also provides a broad range of financial services to the Ontario Electricity Financial Corporation (OEFC) and Infrastructure Ontario (Ontario Infrastructure Projects Corporation).

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Statement from the Chair and the Chief Executive Officer

We are pleased to report that 2007-08 was another successful year for the Ontario Financing Authority.

Despite challenging market conditions, we raised \$18.0 billion on behalf of the Province of Ontario and the Ontario Electricity Financial Corporation (OEFC), completing our long-term borrowing requirement for the fiscal year.

We were affected by global credit conditions through our investments in Canadian third-party asset-backed commercial paper. A restructuring plan for this paper was approved by investors and has gained court approval to proceed. We will continue to closely follow developments in the restructuring process.

The OFA developed a new policy framework for financing public bodies that are consolidated on the Province's financial statements. Under the new framework, the OFA provided loans to a number of public bodies, including colleges and school boards. We also were involved in arranging loan agreements between the OEFC and Ontario Power Generation Inc. to facilitate financing requirements for new electricity supply projects.

The Ontario Financing Authority managed banking relationships, ensuring the continuous provision of essential banking services to the Province. We participated in the project to transfer Ontario's corporate tax function to the federal government.

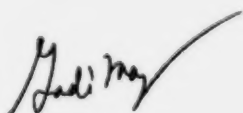
Looking to 2008-09, the OFA will continue to provide cost-effective borrowing, financial and debt management services. The long-term borrowing requirement is forecast at \$24.3 billion, primarily for debt maturities and capital investments. We also will continue to engage in public-sector financing initiatives and to provide advice and support on financial aspects of electricity sector developments.

We would like to take this opportunity to thank the OFA staff for their hard work, and the members of the Board of Directors for their advice and oversight during the fiscal year. We look forward to working with both staff and the Board in 2008-09.

We also would also like to offer Karen Sadlier-Brown and Christine Moszynski our best wishes on their retirement and thank them for their many contributions to the OFA. We will miss their enthusiasm, intelligence and strong commitment to serving the people of Ontario.



Colin Andersen
Chair



Gadi Mayman
Chief Executive Officer



Management's Discussion and Analysis

Capital Markets Activities

Borrowing and Debt Management

Financial, Cash Management and Banking Services

Financial Advice



Management's Discussion and Analysis

This section details Management's discussion and analysis of the OFA's results in 2007-08 and its objectives for 2008-09 as of June 2008.

Capital Markets Activities

Borrowing Program

The 2007-08 long-term public borrowing requirement was \$18.0 billion, a decrease of \$0.8 billion from the \$18.8 billion estimated in the 2007 Budget Plan. This decrease reflects an improvement in the Province's fiscal position.

Bond markets were volatile during part of 2007-08 but the Province continued to have relatively steady access to the domestic bond market due to investor confidence in Ontario and the liquidity provided by its benchmark bond issues.

The OFA maintained a flexible approach to borrowing, monitoring both domestic and international capital markets to minimize debt service costs and diversify the borrowing program. While \$15.4 billion, or 86 per cent of the Province's borrowing program was completed in the domestic market, the Province successfully accessed the international capital markets through two U.S. dollar global bonds.

Only \$2.6 billion, or 14 per cent, of the borrowing program was raised from international markets as borrowing costs were generally much higher abroad.

Borrowing in the domestic market was completed through a variety of issues including:

- syndicated bonds
- medium-term notes
- Ontario Savings Bonds
- bond auctions
- floating rate notes.

Borrowing – All Markets

Domestic Bonds	\$15.4B (86%)
International Bonds	\$2.6B (14%)

Total: \$18.0 billion



Borrowing – Domestic Market

Syndicated Bonds	\$10.1B (66%)
Bond Auctions	\$2.0B (13%)
Floating Rate Notes	\$1.4B (9%)
Ontario Savings Bonds	\$1.3B (8%)
Medium-Term Notes	\$0.6B (4%)

Total: \$15.4 billion



Investments

The OFA manages the Province's liquid reserve portfolio to optimize investment returns and to ensure that sufficient funds are available to meet cash requirements. The average level of liquid reserves was \$7.3 billion in 2007–08.

As reported in the 2008 Ontario Budget, the Province holds approximately \$645 million of asset-backed commercial paper (ABCP), currently being restructured by the Pan-Canadian Investors Committee. A restructuring plan for the paper was approved by investors and has gained court approval to proceed. The OFA will continue to monitor developments in the restructuring process. ABCP investments are the equivalent of less than 10 per cent of the Province's cash reserves and do not affect its liquidity.

The OFA also invests on behalf of certain public bodies to increase returns by improving investment processes and reducing investment costs. In 2007–08, the OFA provided investment services to a number of agencies, boards, commissions and other public bodies, including Infrastructure Ontario, the Pension Benefits Guarantee Fund, Ontario Trillium Foundation and the Deposit Insurance Corporation of Ontario. Total funds managed were \$2.5 billion.

With Ontario Power Generation Inc. (OPG), the OFA continued to manage the investment activities of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund, established under the Ontario Nuclear Funds Agreement (ONFA). As at March 31, 2008, the combined market value of the funds was \$9.7 billion, compared to a market value of \$4.9 billion when the funds were formally established in 2003.

There are currently 18 external investment managers retained to invest the funds in both bonds and equities. Since inception, the funds have returned 8.4 per cent annualized, versus the long-term target rate of return of 5.15 per cent (3.25 per cent plus the change in the Ontario Consumer Price Index).

Objectives for 2008–09

The total long-term borrowing requirement for 2008–09 is forecast at \$24.3 billion, primarily because of debt maturities and capital investments.

The Canadian dollar domestic market will again be the Province's main funding source. The OFA will continue to diversify the domestic borrowing program using a combination of syndicated issues, bond auctions, floating-rate notes and medium-term notes. The 2008–09 program also will include the fourteenth Ontario Savings Bond campaign. The size of the campaign will depend on market conditions.

It is expected that approximately 25 per cent of the program will be sourced internationally. Investor relations will be a key priority, with road shows to Europe, the U.S. and within Canada, and possibly to Australia and Asia. The focus will be on road shows that support specific bond issues. Website upgrades will continue to support ongoing investor outreach.

The OFA also will manage the Province's liquid reserves conservatively, with a rate of return consistent with its investment objectives. For Ontario Power Generation, the OFA will continue to administer the nuclear funds investments consistent with nuclear fund agreement objectives so that the Province's contingent liabilities under this agreement are prudently managed.

Treasury and administrative services to Crown agencies and funds management for public sector organizations will be provided by the centralized investment initiative to reduce costs.

Borrowing and Debt Management

The OFA manages the total debt for the Province and the OEFC. Total debt was \$162.3 billion on a consolidated basis, interim as at March 31, 2008. Net debt, the difference between the total liabilities and total financial assets, was \$142.8 billion, interim as at March 31, 2008.

Prudent risk management policies and practices mitigate the financial risks inherent in managing large debt and liquid reserve portfolios. A variety of financial instruments, such as swaps and options, are used to manage exposures to fluctuations in interest rates and foreign currency exchange rates. Risk exposures are monitored daily and audited annually.

Risk management policies are reviewed annually and amendments are approved by the OFA Board of Directors.

Performance

The OFA monitors and measures the performance of the borrowing, debt management and liquid reserve programs. Interim total savings relative to the performance benchmarks were \$40 million in 2007-08, compared to \$86 million in 2006-07.

The borrowing program's performance is measured by the difference between the all-in cost of the actual borrowing program and the all-in cost of hypothetical domestic borrowing of the same term and size, implemented evenly over the fiscal year (even-pace benchmark). The cost difference is compared to the performance of fixed income fund managers relative to a common bond market index.

During 2007-08, the cost of the borrowing program was \$32.7 million lower than the even-pace benchmark, on a present-value basis, compared to \$70.5 million in 2006-07. While the performance in absolute terms of savings was less than the previous year, the relative performance based on the peer group ranking continued to be in the first quartile.

Total Debt Composition

\$162.3 billion

Domestic Bonds	\$103.2B (64%)
International Bonds	\$32.9B (20%)
Non-Public Debt	\$20.3B (12%)
Treasury Bills & U.S. Commercial Paper	\$5.9B (4%)



The debt management program's performance is evaluated based on a comparison of program savings with a risk-based performance target. In 2007–08, the debt management program saved \$2.0 million, compared to \$8.0 million of savings in 2006–07. The performance in relation to the performance target continued to be in the second quartile.

The performance of liquid reserve investments is measured relative to the returns of a custom benchmark, with a term of 45 days. The performance difference is compared to the performance of a peer group of money market managers, relative to a common money market index. The program, which excludes the asset-backed commercial paper write-down from the performance measurement, returned seven basis points more than the 45-day benchmark. This translates into savings of \$5.0 million for 2007–08.

The OFA also monitors the Province's Interest on Debt (IOD) to ensure that it is managed in a sound and efficient manner. Interim IOD costs for 2007–08 were \$157 million below the 2007 Ontario Budget projection, reflecting the impact of lower interest rates and the cost-effective management of the borrowing program, partially offset by the preliminary allowance of \$100 million for asset-backed commercial paper.

Market Risk

Market risk is the risk of loss due to changes in interest rates and foreign exchange. The OFA aims for a balanced debt maturity profile to mitigate the interest rate risk inherent in refinancing maturing debt and the floating-rate debt.

Interest rate exposure from maturing debt and floating-rate debt was 15.6 per cent of outstanding debt as at March 31, 2008, compared to 15.5 per cent as at March 31, 2007. Net foreign exchange exposure was 0.6 per cent of outstanding debt as at March 31, 2008, compared to 0.7 per cent during 2006–07.

Debt maturities were \$13.5 billion, while debt redemptions were \$1.3 billion in 2007–08. In 2006–07, debt maturities were approximately \$14 billion, while debt redemptions were \$1 billion.

All exposures were well within the Province's approved policy limits during 2007–08.

Credit Risk

Credit risk is the risk of loss due to default of bond issuers or counterparties of derivatives or other financial transactions. The lowest acceptable credit rating of counterparties for Ontario is A–. However, Ontario typically enters into swap transactions with new counterparties rated AA– or higher.

The Province's interim total swap portfolio was notionally valued at \$88.7 billion, compared to \$101.8 billion in 2006–07. The portfolio consisted primarily of \$26.8 billion in cross-currency swaps (2006–07 — \$31.3 billion) and \$59.9 billion in interest rate swaps (2006–07 — \$68.6 billion). At year-end, over 80 per cent of swap counterparties had credit ratings of AA– or higher.

The OFA actively manages counterparty risk, but given the uncertainty in the credit markets in 2007, a number of additional measures were taken to limit exposure to counterparty risk. All ABCP and covered-bond counterparties were suspended from the approved counterparty list. No new counterparties were approved and exposure limits were reduced. Counterparty credit strength and exposures continue to be closely monitored.

Liquidity Risk

Liquidity risk is the risk that liquid reserves will not be sufficient to meet the Province's cash requirements. This risk is controlled through the management of operational cash flows, liquid reserve levels and the short-term borrowing program.

Treasury Bill and U.S. Commercial Paper programs have authorized limits of \$12 billion (\$6.0 billion for the Province and \$6.0 billion for the OEFC) and \$2.5 billion, respectively. This is unchanged from 2006–07.

Credit Rating Agency Relations

The Province requires ratings from recognized credit rating agencies to issue debt at favourable conditions in the capital markets. The OFA ensures credit rating agencies understand government policies and budget direction as well as economic and fiscal performance, and properly reflect these in their reports and decisions. Through the OFA, the government maintains a one-window contact with the agencies to ensure that information requests for government policies and other information is consistent and coordinated.

Following the release of the 2008 Budget, Moody's confirmed the Province's Aa1 rating on April 22, 2008, Standard and Poor's confirmed its AA rating on May 23, 2008 and DBRS confirmed its AA rating on May 30, 2008.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The OFA manages operational risks through divisional procedures and contingency plans as well as appropriate staffing and training, all of which are reviewed on an ongoing basis. The Business Continuity Plan (BCP) ensures that critical operations are completed in a timely manner in the event of a business disruption.

The reliability of information technology and computing systems is crucial to ensure that the OFA carries out its mandate efficiently and effectively. Systems were maintained at a high level during 2007–08.

Objectives for 2008–09

Cost-effective and prudent debt management strategies will continue to be key objectives in 2008–09. The OFA will comply with risk management policies and portfolio program limits approved by the Boards of Directors of the OFA and the OEFC. Risk management policies will be reviewed and revised as required in response to an evolving regulatory and capital markets environment.

Financial, Cash Management and Banking Services

The OFA provides centralized cash management services to minimize interest costs. It ensures efficient banking services are provided to the government. It also is responsible for settlement and accounting operations for borrowing, debt management, investment and derivative programs.

In 2007–08, the OFA continued to assist the Ministry of Finance in completing the agreement with the Canada Revenue Agency on the transfer of the Province's corporate tax function. The OFA also implemented a timely and accurate system for forecasting monthly Employer Health Tax receipts, modeled on its award-winning Retail Sales Tax forecasting system.

Working with the Ministry of Finance and the Ministry of Government & Consumer Services, the OFA completed an initiative to ensure that the Province's cheques comply with the Canadian Payments Association's new standards, in advance of the Association's July 2007 deadline. The project team won an Ontario Shared Services Excellence Award for innovation for this accomplishment.

Following a tender process, debit and credit card acceptance services for the Province were awarded to a new supplier. Implementation was substantially complete by fiscal year-end. A tender process for banking and cash management suppliers for the Province was completed in 2007 with no change in suppliers.

During the year, the OFA advised ministries and other public sector organizations on various banking issues including the government's centralized revenue processing project, revenue management improvement process and various Service Ontario initiatives such as the Kiosk Renewal Project.

The OFA continued to research and monitor accounting developments that could potentially impact the Province's debt and interest on debt. The OFA also worked with the Office of the Provincial Controller to provide input to the Public Sector Accounting Board (PSAB) on various issues as well as express concerns with the proposed introduction of fair value concepts that will impact the measurement of a government's annual surplus/deficit.

Objectives for 2008–09

After thoroughly reviewing the existing structure and mandate of the Capital Markets Treasury Division, external consultants recommended that it be split into two divisions, treasury and finance & reporting. Each will be headed by a director. The new structure is expected to better position the OFA to meet its current and future business requirements. Effectively managing this reorganization is a key objective for 2008–09.

The OFA will complete the transition to a new supplier of debit and credit card acceptance services for the Province. A centralized electronic portal will be developed to manage the ongoing administration of these services across the government.

Technical expertise and assistance will be provided to the Ministry of Revenue to modernize Ontario's tax administration systems. This project seeks to convert current paper based tax payment systems to an electronic mode, which will reduce costs and improve client service.

The OFA also will continue to participate in the project to centralize the processing of ministry accounts receivables and federal transfer payments. The OFA will continue to work closely with Service Ontario on the Enterprise Payment Project to improve and modernize service delivery mechanisms to the public.

In addition, work will continue with the Ministries of Finance and Revenue associated with the transfer of the Province's corporate tax function to the federal government. The OFA will explore, along with appropriate ministries, the possibility of implementing advances in banking technology such as pre-paid debit cards in the delivery of efficient and effective service. Finally, the OFA will respond as necessary to accounting developments, particularly those related to financial instruments and foreign currency, and assess any potential impact on debt and interest on debt.

Financial Advice

The OFA was active in providing financial advice and implementation assistance to the Minister of Finance in 2007–08; it also provided advice to ministries, Crown agencies and other public bodies on corporate and electricity finance policies and initiatives.

Transactions

In 2007–08, the Ministry of Education instructed school boards to convert their outstanding short-term borrowing for various capital programs into a long-term financing arrangement. Subsequently, at the direction of the Minister of Finance, the OFA implemented a loan program to finance the capital projects, and in March 2008, the OFA advanced \$685 million in loans, repayable over a 25-year term.

Support also was provided to the loan guarantee initiatives for Ontario's forestry sector. In addition, the OFA continued to assist the Royal Ontario Museum (ROM) with financing advice for the Renaissance ROM Project. The OFA also refinanced the ROM's loans for the October 2007 project. The refinancing is expected to save the museum over \$800,000 in the first year.

Projects

The OFA provided advice to ministries, Crown agencies and other public bodies on a variety of policies and projects to manage the Province's financial assets and liabilities, including effective leasing policies and structures, asset reviews, value-for-money benchmarks and interest rate evaluations.

The OFA developed a new policy framework for financing public bodies that are consolidated on the Province's financial statements, which was approved by the government in June 2007. The new financial framework mandates the OFA to provide long-term financing to school boards, colleges, hospitals and corporations, boards and commissions. Under the new framework, the OFA provided loans to a number of public bodies in 2007–08. The OFA also evaluated forestry sector applications for loan guarantees and the government's Prosperity Fund grants.

Key electricity finance initiatives included facilitating loan agreements between the OEFC and Ontario Power Generation Inc. (OPG) for general corporate purposes and to refinance existing maturities with OEFC, as well as continuing to facilitate OPG's financing requirements for new electricity supply projects.

The OFA assisted in the continued implementation of the Ontario Nuclear Funds Agreement (ONFA). It reviewed and approved OPG's annual Nuclear Waste Management Division budget for eligible expenditures under ONFA, and advised the Minister of Finance on approval of OPG's revised payment schedule into the Used Fuel Segregated Fund, following an OPG special contribution to the fund in December 2007.

The OFA carried out due diligence on legal agreements with the Canadian Nuclear Safety Commission (CNSC) and OPG to satisfy OPG's financial guarantee requirements to the CNSC on decommissioning and nuclear waste obligations. This included a revision to update the access agreement to the ONFA segregated funds, and a direct Provincial guarantee to the CNSC. Effective January 1, 2008, the amount of the new direct Provincial guarantee to the CNSC is \$760 million, reduced from \$1.5 billion in the original Provincial guarantee. The new guarantee is in place for three years.

The OFA also provided analysis and advice to the Minister of Finance and the government to support electricity policies and initiatives, focusing on potential fiscal and economic impacts on the Province and the OEFC.

Objectives for 2008–09

In 2008–09, the OFA will continue to provide financial advice and assistance to the Minister of Finance, ministries, Crown agencies and other public bodies on corporate finance and electricity finance policies and initiatives.

Activities will include advising ministries and agencies on cost-effective leasing policies and structures, appropriate due diligence on financing aspects of asset management projects, comprehensive advice on structuring and completing financial transactions and accurate determination of value-for-money benchmarks and interest rate evaluations.

Particular focus will be given to public infrastructure financing initiatives, including projects pertaining to public transit, roads, highways, bridges and borders, pooled capital procurement for the school renewal funding formulae, and asset reviews. The OFA also will provide advice on measures to support the forestry sector and to facilitate cost-effective borrowing by public sector organizations.

The OFA also will support the Province's \$1.15 billion Next Generation of Jobs Fund, providing analysis and advice as a member of the inter-ministerial project evaluation committee. Financial analysis and advice will be provided to the Minister of Finance on the electricity sector and the impact of related policy initiatives on the Province's finances (including those of the OEFC) and the economy. In addition, ongoing support will be provided for the implementation of the nuclear funds agreement.

As required, the OFA will advise on electricity supply initiatives, including facilitating potential financing to OPG for new supply initiatives.

Summary of Financial Results

The OFA manages the Province's debt and investment of liquid reserves and recovers its costs from the Province for these services. The OFA also provides financial services to Crown agencies and other public bodies and recovers costs on a fee-for-service basis.

The OFA also administers the assets and liabilities of the former Ontario Municipal Improvement Corporation (OMIC). OMIC made loans of \$79 million to various school boards due in 2010–2012 and financed the loans through direct borrowing from the Canada Pension Plan.

The outstanding balance of the loans to public bodies at March 31, 2008, amounted to \$1,964 million, an increase of \$627 million from \$1,337 million in 2007 (Note 6). The increase is largely due to the net \$670 million increase in loans to school boards, the new loan to the Royal Ontario Museum of \$89 million, an additional draw from the line of credit by the Ontario Infrastructure Projects Corporation of \$42 million and new loans to Mohawk and Georgian Colleges of \$6 million. This increase is partially offset by repayments from the Ontario Lottery and Gaming Corporation of \$96 million, the Ontario Power Authority of \$76 million, the Ontario Northland Transportation Commission of \$6 million and the Centennial Centre of Science and Technology of \$2 million.

The OFA continued to provide investment management services to other public bodies in the aggregate amount of \$2.5 billion (2007—\$2.2 billion) (Note 7).

In aggregate, the OFA recovered operating costs from agencies and related parties amounting to \$4.7 million, an increase from the \$4.6 million recovery in 2007. The OFA's income from operations for the year ended March 31, 2008 was \$136,000 (2007—\$9,000). The increase is mainly due to the interest rate spread on the loans advanced in the current year.

The OFA has provided financial advice to the government on various asset optimization initiatives as well as strategic advice on financial and investment policy issues associated with electricity sector reform. OFA staff continues to manage post-sale activities of the Province of Ontario Savings Office (POSO), including legal requirements and liaison with former POSO clients, to ensure that the needs of former POSO account holders are adequately met. The Province continues to guarantee the POSO deposits prior to 2003.

Financial Statements

Responsibility for Financial Reporting

Auditor's Report

Balance Sheet

Statement of Net Income and Retained Earnings

Cash Flow Statement



Responsibility for Financial Reporting

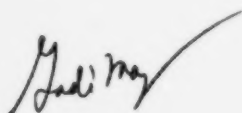
The accompanying Financial Statements of the Ontario Financing Authority have been prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants and are the responsibility of Management. The change to reporting under PSAB in 2007-08 has no impact on the Financial Statements. The preparation of the Financial Statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 6, 2008.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to Management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with Management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The Financial Statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the Financial Statements are fairly presented in accordance with the recommendations of PSAB of the Canadian Institute of Chartered Accountants. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:



Gadi Mayman
Chief Executive Officer
Ontario Financing Authority

Auditor's Report



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 2008, and the statements of net income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2008 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Jim McCarter, CA
Auditor General
Licensed Public Accountant

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Toronto, Ontario
June 6, 2008

Balance Sheet

As at March 31, 2008

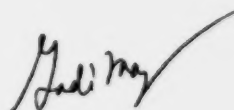
<i>(in thousands of dollars)</i>	2008	2007
ASSETS		
Current assets		
Cash	\$ 221	\$ 436
Interest receivable	2,029	2,032
Due from agencies & related parties (Note 7)	1,054	1,255
Due from the Province of Ontario	1,215	1,108
Total current assets	4,519	4,831
Fixed assets (Note 3)	1,309	1,495
Loans receivable (Note 2)	79,021	79,021
Total assets	\$ 84,849	\$ 85,347
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable	\$ 1,138	\$ 1,108
Due to the Province of Ontario — interest	2,010	2,029
Due to the Province of Ontario — recoveries	1,009	1,545
Total current liabilities	4,157	4,682
Long-term debt (Note 2)	79,021	79,021
Deferred revenue (Note 4)	1,386	1,495
Retained earnings	285	149
Total liabilities and retained earnings	\$ 84,849	\$ 85,347

See accompanying notes to financial statements.

Approved on behalf of the Board:



Colin Andersen
Chair



Gadi Mayman
Chief Executive Officer

Statement of Net Income and Retained Earnings

For the year ended March 31, 2008

<i>(in thousands of dollars)</i>	2008	2007
REVENUE		
Interest revenue	\$ 7,603	\$ 7,603
Cost recovery from the Province of Ontario (Note 5)	15,144	15,003
Total revenue	22,747	22,606
EXPENSES		
Salaries, wages and benefits	15,114	14,058
Interest on long-term debt	7,595	7,594
Administrative and general	3,718	4,162
Amortization	912	1,360
Subtotal	27,339	27,174
Less: cost recovery from Agencies and related parties (Note 7)	(4,728)	(4,577)
Total expenses	22,611	22,597
Net income	136	9
Retained earnings, beginning of year	149	140
Retained earnings, end of year	\$ 285	\$ 149

See accompanying notes to financial statements.

Cash Flow Statement

For the year ended March 31, 2008

<i>(in thousands of dollars)</i>	2008	2007
Cash flows from operating activities		
Net income	\$ 136	\$ 9
Adjustment for amortization	912	1,360
Decrease in net interest receivable/payable	(16)	(3)
Decrease/(increase) in due from agencies and related parties	201	(136)
Increase in accounts payable	30	—
Increase in due from Province	(107)	—
Increase/(decrease) in recoveries due to the Province	(536)	416
Decrease in deferred revenue	(109)	(563)
Cash flows from operating activities	511	1,083
Cash flows from investing activities		
Purchase of fixed assets	(726)	(797)
Cash flows used in investing activities	(726)	(797)
Net increase/(decrease) in cash	(215)	286
Cash, beginning of year	436	150
Cash, end of year	\$ 221	\$ 436

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended March 31, 2008

BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA:

- conducts borrowing, investment, and financial risk management for the Province of Ontario;
- manages the Provincial debt;
- provides financial and centralized cash management services for the Province;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies in borrowing and investing;
- acts as an intermediary of the Province in lending to certain public bodies and invests on behalf of some public bodies.

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: Because the OFA is a government organization, these Financial Statements are prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

Fixed assets: Fixed assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

Furniture and equipment	5 years
Computer hardware	3 years
Leaschold improvements	Term of lease plus one renewal period

Funding received from the Province and the Agencies for the acquisition of fixed assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the fixed assets.

Measurement uncertainty: The preparation of these Financial Statements requires management to make estimates that are based on the best information available at the time of preparation of the financial statements and will be updated annually to reflect new information as it becomes available.

2. ONTARIO MUNICIPAL IMPROVEMENT CORPORATION (OMIC)

In accordance with the *Capital Investment Plan Act, 1993*, OMIC's assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) which were used to make loans to municipalities and school boards under similar terms as its debt.

The maturities and average interest rates on both the outstanding loans receivable and outstanding debt are set out below:

(in thousands of dollars)

Maturing in:	Principal Maturing	Average Interest Rate (%)
2010	\$ 5,156	10.86
2011	29,630	9.97
2012	44,235	9.22
Total	\$ 79,021	9.61

3. FIXED ASSETS

The net book value (NBV) of fixed assets is as follows:

(in thousands of dollars)

	Cost	Accumulated Amortization	NBV March 31, 2008	NBV March 31, 2007
Furniture and equipment	\$ 627	\$ 380	\$ 247	\$ 209
Computer hardware	9,138	8,296	842	1,015
Leasehold improvements	1,576	1,356	220	271
Total	\$ 11,341	\$ 10,032	\$ 1,309	\$ 1,495

4. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province and the Agencies for the acquisition of fixed assets and the amount of lease inducement to be amortized over five years.

(in thousands of dollars)

	Fixed Assets		Lease	Total
	Province	Agencies	Inducement	
Balance, beginning of year	\$ 1,446	\$ 49	—	\$ 1,495
Additions	726	—	\$ 93	819
Amortization	(871)	(41)	(16)	(928)
Balance, end of year	\$ 1,301	\$ 8	\$ 77	\$ 1,386

5. DEBT MANAGEMENT FOR THE PROVINCE

The OFA manages debt and investment on behalf of the Province, including the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the Ontario Nuclear Funds Agreement (ONFA). The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission nuclear power stations. The agreement came into force on July 24, 2003.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2008 was \$15 million (2007—\$15 million).

6. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated Financial Statements, these transactions are not reflected in these Financial Statements. Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating \$5.6 billion expiring from 2027 to 2033. Principal repayments received from public bodies by the OFA are forwarded to the Province. Prior to 2007–08, interest rates charged on loans to public bodies were equal to the rates on the advances to the OFA by the Province. Commencing with new loans advanced in 2007–08, interest rates charged to public bodies will be slightly higher than the rate charged on the advances from the Province to fund the loans ("the spread"). The OFA will generally retain the spread in order to recover the administrative costs of managing these loans. In some cases the rate charged to the borrower will be similar to the rate that would be charged on the loan by a commercial lender.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements consisting of a number of promissory notes for terms not exceeding one year. The promissory notes are later converted to term debt and repayment terms are finalized. As of March 31, 2008, the amounts receivable by the OFA on behalf of the Province represent debentures, short-term loans and lines of credit.

The following represents amounts receivable by the OFA including accrued interest. These amounts are in turn owed to the Province by the OFA. These are related party transactions, with the exception of those with the Corporation of the City of Windsor.

(in thousands of dollars)

	March 31, 2008	March 31, 2007
Centennial Centre of Science and Technology	\$ 4,508	\$ 6,011
Corporation of the City of Windsor	22,961	23,955
Georgian College	3,630	—
Mohawk College	2,149	—
Ontario Infrastructure Projects Corporation	62,217	20,263
Ontario Lottery and Gaming Corporation	297,188	393,150
Ontario Northland Transportation Commission	41,132	47,161
Ontario Power Authority	—	75,610
Royal Ontario Museum	88,936	—
School Boards	1,441,407	770,769
	\$ 1,964,128	\$ 1,336,919

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act, 1990*. The loan will be repaid in installments to March 15, 2017 and bears interest at 4.346 per cent.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of a provincial division courthouse and city police headquarters. This is a 20 year debenture bearing interest at 6.41 per cent and maturing in March 2021.

The Georgian College of Applied Arts and Technology, a Crown agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, borrowed \$3.63 million to finance four projects. It is a ten year loan at 3.954 per cent maturing in March, 2018.

The Mohawk College of Applied Arts and Technology, a Crown Agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, borrowed \$2.4 million to finance the purchase of computer equipment. This is a 4 year loan at 4.8 per cent maturing in September, 2011.

The Ontario Infrastructure Projects Corporation (OIPC) obtained a 10 year revolving credit facility to a maximum amount of \$200 million. OIPC has drawn \$60 million at interest rates ranging from 3.925 to 5.02 per cent.

The Ontario Lottery and Gaming Corporation (OLGC) is a Crown agency of the Province under the *Ontario Lottery and Gaming Corporation Act, 1999*. The OLGC outstanding loans consist of \$215 million term loan and \$82 million drawn from a construction period loan facility. The term loan was issued on June 30, 2004 to purchase the casino complex in Niagara Falls. This is a 5 year loan at 4.3821 per cent maturing in June 2009. The maximum \$250 million construction period loan facility established on October 31, 2007 is to finance the renovation and expansion of Casino Windsor and for the construction of an Energy Centre. The outstanding loans drawn from this loan facility with interest rates ranging from 2.36 to 3.72 per cent are scheduled to be consolidated no later than August 15, 2008.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. The ONTC debentures outstanding as of March 31, 2008 amounted to \$26.1 million, (2007 - \$32.1 million) and were originally issued in six stages maturing from 2008 to 2031 bearing interest at rates varying from 4.717 to 6.37 per cent. ONTC's operating lines of credit were extended to March 31, 2009 by Order in Council to a maximum of \$15 million. As of March 31, 2008, the full amount of \$15 million had been drawn (2007 - \$15 million) bearing interest rates from 1.99 to 3.33 per cent.

The Ontario Power Authority (OPA), established in December 2004, is a not-for-profit corporation. The OPA has provided the OPA with a revolving credit facility available of \$975 million expiring December 31, 2010 to be used primarily to finance the cost of reducing consumers' electricity costs to the Regulated Price Plan level. The OPA has repaid all the outstanding loans as at March 31, 2008.

The Royal Ontario Museum (ROM) and the OPA entered into a Credit Agreement under which the OPA would provide financing for the ROM through fixed rate loans of \$40 million and floating rate loans not to exceed \$51 million. As at March 31, 2008, the outstanding loans were \$40 million at fixed rates ranging from 5.04 to 5.12 per cent and \$48.8 million at a floating rate of 3.48 per cent.

In March 2008, the OPA advanced loans of \$685 million to school boards under various capital programs in addition to the loans provided to the school boards in 2007 under the *Good Places to Learn* initiative. During the year, school boards made two semi-annual blended payments of principal and interest, reducing the loan outstanding amount by \$15 million. The total amount outstanding at March 31, 2008 is \$1,441 million (2007 - \$771 million). These loans bear interest rates from 4.56 to 4.9 per cent and mature from 2031 to 2033.

7. INVESTMENT AND DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OPA provides services to agencies, related parties and other public bodies including investment management services as listed below on a cost recovery basis amounting to \$110,000 for the year ended March 31, 2008 (2007 - \$67,000). Funds managed on behalf of these other public bodies amounted to \$2.5 billion at March 31, 2008 (2007 - \$2.2 billion).

Algonquin Forestry Authority
Deposit Insurance Corporation of Ontario
Northern Ontario Heritage Fund Corporation
Ontario Immigrant Investor Corporation
Ontario Infrastructure Projects Corporation

Ontario Realty Corporation
Ontario Securities Commission
Ontario Trillium Foundation
Pension Benefits Guarantee Fund

In addition, the OFA provides debt management services on a cost recovery basis to agencies as set out below:

Agencies:

Ontario Electricity Financial Corporation (OEFC)

OEFC is responsible for servicing and retiring the debt and certain other liabilities of the former Ontario Hydro. The OFA provides financial services and advice to OEFC and manages its debt portfolio amounting to approximately \$28.2 billion.

Ontario Infrastructure Projects Corporation (OIPC)

The OFA manages the debt of OIPC of \$2.8 billion including loans from the Province, a provincial agency and third parties.

Related parties:

As explained in Note 6, the OFA in 2007–08 began to recover the costs of administration of loans to related parties as an interest rate spread. In the previous year, the OFA made loans to school boards and recovered costs through a one-time payment of \$151,000.

Total costs recovered and amounts outstanding at March 31, 2008 from OEFC, OIPC and the related parties are set out below:

<i>(in thousands of dollars)</i>		
	March 31, 2008	March 31, 2007
Costs Recovered:		
Agencies:		
OEFC	\$ 3,309	\$ 3,330
OIPC	1,181	1,029
Other	110	67
Related parties	128	151
Total	\$ 4,728	\$ 4,577
Receivables:		
Agencies:		
OEFC	\$ 727	\$ 875
OIPC	256	213
Other	26	16
Related parties	45	151
Total	\$ 1,054	\$ 1,255

8. FUTURE EMPLOYEE BENEFITS

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government Services (MGS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGS and is not reported in these Financial Statements.

9. CONTINGENCIES AND COMMITMENTS

At March 31, 2008, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the deposits issued by the Province of Ontario Savings Office prior to 2003.

10. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform with the financial statement presentation adopted for 2008.

Corporate Governance

Corporate Governance

Financial Reporting

Internal Controls

Board of Directors



Corporate Governance

The OFA is an agent of the Crown and is classified as an operational enterprise agency.

Corporate governance involves processes that permit the effective supervision and management of the OFA's activities by senior management, the Board of Directors and the Minister of Finance. It includes identifying individuals and groups responsible for activities and specifying their roles. The OFA's governance framework is fully described in its corporate governance policy.

Accountability and Responsibilities

The OFA's accountability structure flows from its governing statute, the *Capital Investment Plan Act, 1993* (the Act). The Minister of Finance is the minister responsible for the administration of the Act with respect to the OFA. The Act, together with a Memorandum of Understanding (MOU) between the OFA and the Minister of Finance and directives issued by Management Board of Cabinet (MBC) relating to Crown agencies, form a framework under which the OFA is governed.

Each year, the Minister is required to submit the Annual Report to the Lieutenant Governor in Council and then table the report in the Legislature. In addition, the Minister reviews and approves the annual business plan and recommends the plan for approval to MBC every three years or as otherwise required by government directives. The Minister also maintains communications with the OFA through the Chair of the Board of Directors regarding government policies and expectations relevant to the OFA.

The Chair is accountable to the Minister of Finance for the performance of the OFA in fulfilling its mandate. The Act requires that the Deputy Minister of Finance be the Chair of the OFA. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of the OFA. In addition, the Chair provides leadership and direction to the Board of Directors and the CEO and ensures that the OFA complies with governmental policies and directives.

The Board of Directors is appointed by the Lieutenant Governor in Council and is accountable to the Minister through the Chair for supervising the management of the OFA. The Board of Directors meets at least quarterly and receives regular reports from the CEO and OFA staff concerning the operations of the OFA and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board approved Code of Conduct.

There are also two committees of the Board to assist it in supervising the activities of the OFA. The Audit Committee approves an annual internal audit plan and liaises with the OFA's internal auditors and the Auditor General of Ontario regarding financial reporting and controls. The Audit Committee also reviews financial policies and financial statements and recommends them to the Board. The Human Resources Committee was created in 2006-07 to assist the Board in ensuring appropriate measures are in place to recruit, develop and retain qualified staff in critical areas.

The CEO is appointed by the Lieutenant Governor in Council on the recommendation of the Minister. The CEO is accountable to the Chair for the day-to-day management of the OFA and for the performance of any other functions assigned by the Board of Directors. The CEO is responsible for managing the ongoing activities of the OFA, including the supervision of staff. In addition, the CEO ensures that the OFA's policies and procedures remain relevant and effective.

The OFA's employees are appointed pursuant to the *Public Service of Ontario Act, 2006* and are subject to policies and directives applicable to Ontario public servants.

Financial Reporting

The OFA prepares annual financial statements in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. They are reviewed and recommended by the Audit Committee and approved by the Board of Directors. Unaudited financial statements are prepared quarterly and presented to the Audit Committee and the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly and in accordance with Canadian generally accepted accounting principles. The findings are reviewed by the Audit Committee and the Board of Directors. These audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included as a schedule to the Public Accounts of the Province.

Internal Controls

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting, to safeguard the OFA's assets and to control its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, the OFA uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

- comprehensive business planning
- written communication of policies and procedures governing corporate conduct and risk management
- segregation of duties
- maintenance and retention of detailed records
- responsible delegation of authority and personal accountability
- careful selection and training of personnel
- regularly updated accounting policies.

As part of its annual business plan, the OFA conducts a risk assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan based on its risk assessment and input from the OFA Audit Committee and OFA management. The internal audit plan is approved by the OFA Audit Committee. The Internal Audit Division reports to the OFA Audit Committee on the results of their audit work in the OFA.

Board of Directors

The following individuals were members of the Board of Directors in 2007–08:



Colin Andersen [Appointed 2004]

Deputy Minister, Ministry of Finance and Ministry of Revenue, and Secretary of Treasury Board. Chair, OFA Board of Directors.

Colin was appointed Deputy Minister of Finance in February 2004 and became Deputy Minister of Revenue in 2007. He is Chair of the OFA by virtue of his position as Deputy Minister of Finance. His role as OFA Chair ceases when a successor Deputy Minister of Finance is appointed.

Colin was appointed Deputy Minister of Policy, Cabinet Office, in January 2003. Prior to this he held various positions in the Ministry of Health and Long Term Care including,

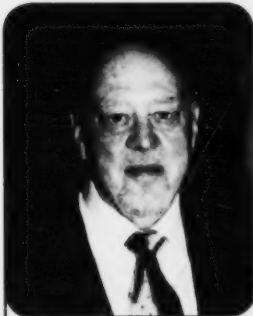
Acting Deputy Minister, Associate Deputy Minister and Assistant Deputy Minister (ADM), Policy Division.

Colin played a key role in overseeing the Province's policy and federal-provincial agenda including serving as official liaison to the Romanow Commission on the Future of Health Care in Canada (a Premier's appointment) and as the Ontario regional representative on the Board of the Canadian Institute for Health Information (CIHI).

Previously, as Assistant Deputy Minister, Fiscal and Financial Policy Division, Ministry of Finance, Colin provided the government with advice and assistance on all aspects of fiscal and financial policy and planning, expenditure management and reporting and overall stewardship of the financial resources of the Province.

Colin joined the OPS in 1986 and has held a variety of financial and policy positions since then. Prior to his position as ADM with the Ministry of Finance, he served as Director of the Fiscal Planning Branch, Special Advisor to the Deputy Minister of Finance, Senior Policy Advisor to the Executive Council Office at Cabinet Office and Manager of the Expenditure Management Branch of Treasury Board.

Colin has a master's degree in economics from the University of Toronto and an honours bachelor of arts from the University of Calgary.



Robert Brown, FCA [Appointed 2005]

Vice Chair, OFA Board of Directors

Robert is a Past Chair and Chief Executive Officer of Price Waterhouse (now PricewaterhouseCoopers).

He has served as Chair of the Canadian Tax Foundation and the Canadian Institute of Chartered Accountants. Robert has an extensive background in tax, fiscal and governance issues. He was a member of the Toronto Stock Exchange Committee on Corporate Governance. Robert also served a term as the Clifford Clark Visiting Economist to the Department of Finance, providing advice to the Department and the Minister on fiscal, tax and economic policy issues. More recently, Robert served as Co-Chair of a federal committee to review tax assistance for the disabled. He is a director of Canadian Apartment Properties Real Estate Investment Trust and has served as a director of other public Canadian companies.

Robert has served in a number of volunteer positions and is a Past Chair of the C.D. Howe Institute and a frequent speaker and writer on economic and tax policy issues. He is a Director of Canadian Policy Research Networks and a Past Director of the Institute of Corporate Directors.

Robert is a graduate of the University of Toronto (BCom) and of the University of Chicago (M.A., Economics).



Gadi Mayman [Appointed 2003]

Chief Executive Officer

Gadi is responsible for the Province of Ontario's medium and long-term borrowing strategy, banking relationships and policies related to debt management. He advises the Province on the use of the Provincial credit and relations with capital markets and investors. Gadi is also Chief Executive Officer of the Ontario Electricity Financing Corporation (OEFC) and responsible for its day-to-day operations.

Gadi is a Director on the Board of Ontario Infrastructure Projects Corporation (OIPC). He is also Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and Ontario Power Generation Inc. (OPG) Committee. Gadi was also on the Board of the Ontario Clean Water Agency (OCWA) from 2000–2007 and served as the inaugural Chair of its Audit Committee.

Prior to joining the Ontario Ministry of Finance in 1991, he worked as a Treasury Officer at the Export Development Corporation (EDC) in Ottawa for three years and in the International Division of the Toronto Dominion Bank for five years.

Gadi received a BSc in Industrial Engineering from the University of Toronto in 1981, and an MBA from the University of Western Ontario in 1988.



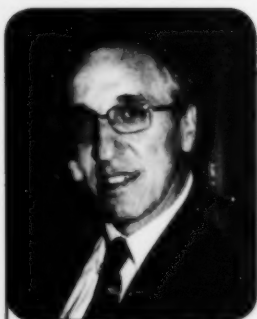
Lorraine Bell, C.A. [Appointed 2005]

Committees: Audit Committee, Vice-Chair
Human Resources Committee, Member

Lorraine has over 25 years of financial experience, including over 13 years of experience in the derivatives markets. She is currently a Trustee, Chair of the Audit Committee and member of the Governance Committee for Brookfield Real Estate Services Fund. Lorraine was formerly a Vice-President and Director with General Re Financial Products Canada (GRFP). Prior to joining GRFP, she worked as a financial consultant, and was a Vice President at a number of corporations including Prudential Global

Funding and Citibank Canada. Before joining Citibank Canada, Lorraine was with Touche Ross & Company (now Deloitte & Touche) as a member of the audit group and obtained her CA designation at that time.

She is an active volunteer and Past Board Member of a number of charitable organizations in Ontario. Lorraine is a member of the Institute of Corporate Directors.



Mario Ferrara [Appointed 2005]

Committee: Audit Committee, Chair

Before his appointment to the OFA Board of Directors, Mario was Managing Director and Head of the Government Finance Group at Scotia Capital in Toronto. The Group provided a wide range of financial advice and executed financing transactions for the firm's government and government-related clients.

Mario's investment management experience includes senior positions in the private and public sector. As Vice-President, Investments at E-L Financial Corporation, he was head of the investment group with direct responsibility for managing the fixed-income portfolios of the company's life and casualty insurance subsidiaries. Prior to joining E-L Financial, Mario spent 12 years at Ontario Hydro in a number of finance-related positions including portfolio manager of the fixed-income assets of the Ontario Hydro Pension Plan. Later at Ontario Hydro, he was Assistant Treasurer-Corporate with responsibility for management, development and execution of funding plans, investor relations and corporate insurance.

Mario holds a BCom and MBA from McMaster University.



Richard J. Kostoff [Appointed 2007]

Committee: Human Resources Committee, Member

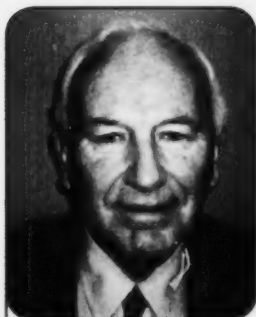
Richard recently retired as Deputy Chair of TD Securities with 35 years of experience in the investment industry. In that role, he was responsible for senior capital markets coverage related to a wide variety of government, infrastructure and corporate financing assignments.

Over the course of his career, Richard's senior management responsibilities have included fixed income sales and trading, derivative marketing and equity and debt capital markets origination. In addition to TD Securities, Richard has held senior positions at

RBC Dominion Securities (Director), Gordon Capital (Partner), Pemberton Securities (Senior Vice President), and Midland Doherty (Vice President). He started his career at Canada Life Assurance Company as a Junior Fixed Income Trader in 1972.

Richard is currently the principal of Templar Investments Limited, a consulting and advisory firm located in Toronto.

Richard graduated from York University in 1972 (BA Economics).



Patrick Lavelle [Appointed 2005]

Committees: Human Resources Committee, Chair
Audit Committee, Member

Patrick is Chairman and Chief Executive Officer of his own strategic management consulting firm established in 1991. Until March of 2002, Patrick was Chairman and CEO of Unique Broadband Systems Inc. He is a Past Chairman of Export Development Canada and also served a 3-year term as Chairman of the Board of the Business Development Bank of Canada. Prior to establishing his own firm, Patrick was Vice President, Corporate Development, Magna International Inc.

In 1985, Patrick was appointed Deputy Minister of Industry Trade and Technology for the Province of Ontario. At the same time, he was the First Secretary of the Premier's Council which produced an economic blueprint for the Ontario economy. Patrick also served as an Executive Assistant to the Federal Minister of Labour and Health and Welfare, and Agent General for the Government of Ontario in Paris, France. Patrick is President and CEO of the Automotive Parts Manufacturers' Association of Canada.

Patrick is a director of a number of public and private Canadian and U.S. companies. He is a member of the Advisory Board of the International MBA program at York University.



Carol Layton [Appointed 2003]

Committees: Audit Committee, Member
Human Resources Committee, Member

Carol Layton is Deputy Minister of Public Infrastructure Renewal. Carol was previously Ontario's Deputy Minister of Results Delivery within Cabinet Office, Deputy Minister of Citizenship and Immigration as well as Deputy Minister Responsible for Women's Issues and Seniors. She has held various senior positions in the Management Board Secretariat and the Ministries of Health and Long-Term Care, Finance, the Attorney General and Treasury and Economics. Carol also served as the 2007 President of the Institute of Public Administration of Canada (IPAC).



Jack M. Mintz [Appointed 2003]

Jack Mintz is Palmer Chair in Public Policy at the University of Calgary. Prior to his appointment to the OFA Board of Directors, Jack was President and Chief Executive Officer, C.D. Howe Institute.

Jack also serves on various corporate and not-for-profit boards. He has published more than 180 books and articles in the fields of public economics and fiscal federalism. He serves on the Board of Governors of the National Tax Association in Washington, D.C., is an Associate Editor of *Contemporary Accounting Research and International Tax and Public Finance* and is a research fellow of CESifo, Munich, Germany.

Jack has served as a visiting economist at the Department of Finance, Ottawa: Chair of the federal government's Technical Committee on Business Taxation in 1996 and 1997; Associate Dean (Academic) of the Faculty of Management, University of Toronto, 1993–95; a special advisor to the Deputy Minister, Tax Policy Branch, Department of Finance, Ottawa, 1984–86; and Director of the John Deutsch Institute, Queen's University, 1987–89.



Dagmar Teubner [Appointed 2007]

Committee: Audit Committee, Member

Dagmar is a lawyer and chartered accountant. She has extensive tax law experience having practiced with a large accounting firm.

Dagmar has been an independent consultant since 1988. She works extensively with the private sector, various levels of government and foreign clients to solve real-estate based problems and coordinate development projects.

Dagmar has a Bachelor of Science degree from the University of Toronto and has authored and co-authored numerous publications on domestic and international tax law.

She lectures extensively on tax matters at Canadian universities.

Dagmar is actively involved in various charitable institutions.

Risk Management Policies and Procedures

OFA risk management policies and procedures provide for the management of risk exposures created by capital market activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to the Province's debt and derivatives portfolios and capital markets transactions.

The policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements and in consultation with Canadian bank representatives on their risk management practices.

The Board approves risk management policies and monitors the performance of capital market activities.

Market Risk Policy

Market risk is the risk of financial loss attributable to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- **Foreign Exchange Limit:** unhedged foreign currency exposure is limited to 5 per cent of debt issued for provincial purposes. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.
- **Net Interest Rate Resetting Limit:** the interest rate resetting risk exposure is the sum of maturities and floating-rate debt (net of liquid reserves) over the next 12 months and is limited to a maximum of 35 per cent of debt issued for provincial purposes.
- **Interest on Debt (IOD) Loss Limit:** the total amount of financial losses resulting from market risk cannot exceed 3 per cent of budgeted IOD for a fiscal year. In addition, the CEO establishes a trigger level to ensure that losses from market activities will not reach the debt cost loss limit. The trigger level is included in the Annual Financing, Debt and Electricity Management Plan.

The OFA identifies and quantifies current and potential exposures to market risk and ensures that risk exposures and losses remain within approved exposure and loss limits. Exposure to market risk is measured and reported daily.

Credit and Related Legal Risks Policy

Credit risk is the risk of loss in which a counterparty does not meet or defaults on its obligations. Credit risk arises when the OFA undertakes financial and derivative transactions. The minimum credit rating of a counterparty for a new swap transaction is typically AA-, and R1-mid (and A-1 or P-1) for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating and capital base. Concentration limits are also in place to limit exposure. Credit exposure is measured and reported daily.

Policy on the Use of Derivatives and Other Financial Instruments

Use of derivatives and other financial instruments is restricted to those which the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from existing and planned debt issues in a sound and cost-effective manner consistent with the Annual Financing, Debt and Electricity Management Plan. Risks arising from the use of derivatives are monitored and managed prudently.

Risk Management Reporting Policy

At its regular quarterly meetings, the Board of Directors is kept informed of the OFA's activities:

- The CEO provides the Board of Directors with a progress report on the implementation of the Annual Financing, Debt and Electricity Management Plan, staffing and other administrative and operational matters. The CEO also reports on the OFA's compliance with applicable government directives.
- The Director of Risk Control reports on program exposures and performance as well as exceptions to policies.

In addition, OFA management is kept informed of OFA's risk exposures and positions on a daily basis.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events. Each division manages operational risk through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers the OEFC's operations) that is regularly updated to facilitate the continuation of essential operational functions with a minimum of disruption in the event of an emergency.

Appendices

Ontario's Credit Ratings

Additional Sources of Information



Ontario's Credit Ratings

A credit rating is a current assessment of the creditworthiness of a borrower with respect to a specified obligation. It indicates the capacity and willingness of a borrower to pay interest and principal in a timely manner.

Long-Term Ratings

Long-term ratings are assigned a letter grade ranging from investment grade, to speculative grade, to highly speculative or default. Ratings within each category may include a "plus" or "minus" (or a high or low) to indicate the relative strength of rating within that category. The current long-term ratings of the Province of Ontario are as follows:

- | | |
|-----------------------------|-----|
| • Moody's Investors Service | Aa1 |
| • Standard & Poor's | AA |
| • DBRS | AA |

Short-Term Ratings

Short-term ratings are for debt maturities of less than one year. Ratings are graded into several categories, ranging from the highest-quality obligations to default. The current short-term ratings of the Province of Ontario are as follows:

- | | |
|-----------------------------|------------|
| • Moody's Investors Service | P-1 |
| • Standard & Poor's | A-1+ |
| • DBRS | R-1 (high) |

Additional Sources of Information

www.ofina.on.ca

The website provides information on Ontario's borrowing program and debt and contains publications from the Ontario Financing Authority and Ontario Ministry of Finance.

Ontario Budget

The Borrowing and Debt Management chapter discusses the Province's borrowing and debt management activities for the fiscal year ended and outlines the outlook for the upcoming fiscal year.

Quarterly Finances – OFA Bulletin

It has quarterly updates of the government's annual budget forecast. Quarterly finances information is also available on the Ministry of Finance website, www.fin.gov.on.ca.

Form 18-k

This is the Province's annual report to the U.S. Securities and Exchange Commission (SEC).

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